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Mr. William F. Caton, Secretary
Federal Communications Commission
1919 M Street, N.W.
Room 222
Washington, DC 20554

Dear Mr. Caton:

Re: In the Matter of Interconnection Between Local Exchange Carriers and
Commercial Mobile Radio Service Providers
CC Docket No. 95-185

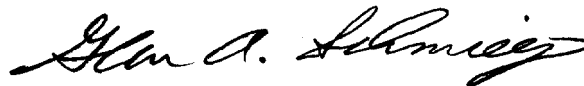
Enclosed for filing are the original and ten copies of the Initial Comments of
the Michigan Exchange Carriers Association in the above-referenced matter.

Please return a time-stamped copy of the comments to the undersigned. A
self-addressed stamped envelope is enclosed.

Thank you for your assistance in this matter.

Very truly yours,

FOSTER, SWIFT, COLLINS & SMITH, P.C.



Glen A. Schmiede

sjb

Enclosures

cc w/encl:

Janice Myles (Common Carrier Bureau)
International Transcription Services, Inc.

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BEFORE THE
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In the Matter of

Interconnection Between Local Exchange Carriers
and Commercial Mobile Radio Service Providers

Equal Access and Interconnection
Obligations Pertaining to
Commercial Mobile Radio Service Providers

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) CC Docket No. 95-185
)

) CC Docket No. 94-54
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INITIAL COMMENTS OF THE MICHIGAN EXCHANGE CARRIERS ASSOCIATION

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February 23, 1996

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I. GENERAL COMMENTS.

A. Michigan Exchange Carriers Association.

The Michigan Exchange Carriers Association ("MECA") is a Michigan association whose membership is comprised of 35 small local exchange carriers ("LECs") in Michigan. MECA's members generally serve the rural areas of the state. MECA's members provide basic local exchange service and access service. MECA was formed to establish joint intrastate access rates for these small rural LECs, to administer the intrastate access "pool" and to address access-related matters on their behalf. MECA's members achieve administrative efficiencies by having one entity who deals with regulatory bodies with regard to access service. In the absence of MECA, each individual member company would charge different rates depending on the costs, competitive circumstances, and other factors peculiar to that company.

Since MECA administers the intrastate access pool and sets access rates, it has a significant vested interest in the impact of regulation on access service. MECA files these comments for the reason that the FCC's decision on commercial mobile radio service ("CMRS") interconnection will have a significant impact on MECA member companies.

1. Differences Between Large and Small LECs Demonstrate the Need for Different Interconnection Requirements. The Characteristics of MECA Member Companies are Those of Small LECs.

Small LECs such as MECA member companies generally only provide basic

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local exchange service and access services. Some MECA members do provide custom calling features and other incidental non-regulated services, but in their small rural markets the demand for these services is low. Therefore, the variety of services over which small LECs can recover their shared costs and overheads is very limited. Access and local service contribute the bulk of revenues to cover shared costs and overheads. This is diametrically opposite of the large LECs in Michigan, such as Ameritech Michigan and GTE, who, in addition to basic local and access service, provide toll service and a vast array of custom calling features and other non-regulated services. This gives the large LECs and Regional Bell Operating Companies ("RBOC") the ability to recover shared costs and overheads from many different sources.

The size of the small LECs' customer base as compared to the RBOCs and other large LECs demonstrates the need to treat small LECs differently regarding interconnection requirements. As an example, the average number of customers per central office and the density of subscribers along a cable route are significantly different for large LECs and RBOCs than for small rural LECs, such as MECA member companies.

In 1994, the Organization for the Protection and Advancement of Small Telephone Companies ("OPASTCO") published a comprehensive report showing the relationship between the number of customers and the facilities required to serve those customers. The study showed that the average number of subscriber access lines per central

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office for a RBOC is 11,000; whereas, for a small company member of the National Exchange Carriers Association ("NECA"), which includes all MECA's members but one, the number is 1,275 subscriber access lines per central office.¹

Also telling is the number of subscribers per mile of the local loop. RBOCs nationally have 130 subscribers per route mile and more than 330 subscribers per square mile; whereas, small LECs have 6.3 per route mile and 4.4 per square mile. The comparable average for MECA member companies is 8.3 subscribers per route mile and 11.7 subscribers per square mile.

The difference between the number of customers served by the large LECs and RBOCs versus the MECA member company LECs in terms of central offices and cable route miles illustrates the inability of small LECs to recover their shared costs and overheads from a broad customer base. Central offices and route miles are common denominators that demonstrate economies of scale. Since MECA member LECs serve fewer subscribers per central office or route mile than do the RBOCs or any other large LEC, they have less opportunity to take advantage of economies of scale. Without the economies of scale there is no opportunity to spread shared costs and overheads over a large number of end users or

¹Organization for the Protection and Advancement of Small Telephone Companies, Keeping Rural America Connected: Costs and Rates in the Competitive Era (Washington, D.C., 1994), pp 2-4.

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over a vast number of switched minutes of use. Each loop and every billed access minute must make a greater contribution to shared costs and overheads than those same RBOC or large LEC subscriber loops or minutes of use.

B. Summary of MECA's Position.

Generally, MECA's position in these comments are that, in the long term, the FCC should treat small LECs differently than RBOCs and other large LECs and each LEC should have its own uniform interconnection rates that are charged to all carrier types or groups. Any interconnection arrangement between LECs and CMRS providers should be on a mutual compensation basis, at a rate equal to the terminating carrier's costs including a sufficient contribution to shared costs and overheads, and any usage sensitive costs to be recovered on a per minute of usage basis. On an interim basis, MECA takes the position that current FCC authorized toll access charges should be used as the interconnection rate between small LECs and CMRS providers. Even if the FCC determines that on an interim basis some other form of compensation should be implemented, MECA urges the FCC to recognize a small LEC exemption that would allow small LECs to charge CMRS providers toll access rates as the interconnection rate.

MECA further takes the position that the FCC should not preempt state interconnection arrangements. Rather, the FCC solution should serve as a voluntary model that states should be encouraged to follow. The FCC should not require mandatory

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observation of any federal interconnection rules since each state has significantly different markets and, thus, state utility commissions and state legislatures are better suited to balance the interests in the state markets than the FCC.

II. COMPENSATION FOR INTERCONNECTED TRAFFIC BETWEEN LECs AND CMRS PROVIDERS' NETWORKS.

A. Compensation Arrangements.

Especially for small LECs, rates in excess of long-run incremental costs ("LRIC") are appropriate for the pricing of interconnection between LECs and CMRS providers.

An interconnection rate that recovers costs in excess of LRIC is LRIC computed based upon accepted economic principles, plus an additional margin to recover a contribution to shared costs and overheads. The amount of the additional margin would vary between the 35 independent small LECs in Michigan and all LECs across the country. The FCC should allow state pools that could pool both interstate and intrastate revenues. MECA member companies would pool and recover a uniform rate implemented through MECA, much like MECA administers the intrastate access pool. Therefore, the amount of the additional recovery would either be set on an individual company case basis or for a pool on the pool's own particular LRIC.

Rates in excess of LRIC are appropriate for small LECs for several reasons. First, pricing based on LRIC alone does not provide for any contribution to shared costs and overheads. Small LECs have invested in the network and must be compensated for use of that network by all interconnecting carriers including CMRS providers. Second, as stated

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earlier, MECA member LECs not only have few customers over which to spread their shared costs and overheads, but because of the low demand in rural areas, MECA member LECs also have few services over which to spread their shared costs and overheads. Even though small LECs have the technology to offer custom calling features, the demand for such services is limited in rural areas. Thus, if LEC-CMRS interconnection is priced such that small LECs do not recover a proportionate share of shared costs and overheads from CMRS providers, then end users, and other carriers, like IXC's, will be subsidizing CMRS providers. The small LECs, therefore, must be allowed to recover shared costs and overheads in any interconnection rate.

In the interim period, for small LECs, interconnection rates for CMRS providers should be set at the toll access charges of the small LEC. This is appropriate since those rates contribute to the small LEC's shared costs and overheads and since those rates will treat all carrier groups similarly and eliminate incentives for arbitrage by large carriers that provide CMRS services and other telecommunications services.

With respect to small LECs, the end users will be in for a price shock if small LECs are required to provide CMRS interconnection at LRIC and then required to obtain their shared costs and overheads from basic telephone service rates. The Notice of Proposed Rulemaking ("NOPR") suggests that if some services are priced above LRIC, it will cause some distortions. MECA argues that more distortions will be created if a mutual

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compensation system is set at LRIC or at another rate that does not include sufficient recovery of some portion of the small LEC's shared costs and overheads because LECs will have to recover those costs from other carrier groups, such as IXC's, or from their end users.

Interconnection rates to CMRS providers should be identical to those charged to carriers of other service offerings and priced to recover the same portion of shared costs and overheads. In a competitive marketplace, no one telecommunications service should subsidize another. There is no difference between IXC's, CMRS providers, or any other telecommunications service provider from the small LEC's perspective. All carriers and services must be treated similarly and therefore toll access charges, at least on an interim basis, are the appropriate and preferred rates for interconnection. CMRS providers should be treated no differently in the short term or the long term from other providers. For these reasons, FCC toll access charges should be used as the LEC-CMRS interconnection rate for small LECs in the near term.

Dissimilar rates for interconnection between IXC's and CMRS providers or other providers of any other telecommunication service creates arbitrage incentives. If the FCC sets rates that are LRIC-based for CMRS providers and the rates charged to IXC's remain at current levels, then carriers that provide both CMRS services and interexchange toll services will have an incentive to misreport usage. A lower rate for CMRS interconnection will cause the carriers to report higher usage in CMRS services, rather than

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toll. Disparity in rates between service providers creates an arbitrage incentive for the multiple service provider and further causes the other customers of the small LEC to carry a heavier burden for the LEC's recovery of shared costs and overheads. Similar interconnection rates, therefore, eliminates these arbitrage incentives.

In sum, in the short term and the long term, interconnection charges for CMRS providers should be cost-based and based on a per minute usage rate that reflects LRIC plus an additional element to recover shared costs and overheads. Toll access charges meet these objectives in the short term.

1. Existing Compensation Arrangements. (§§ 40-41)

MECA does not want the FCC to preempt its current interconnection arrangements with cellular carriers by establishing mandatory LEC-CMRS interconnection arrangements. MECA member companies' current interconnection arrangement with cellular carriers in Michigan is based in part upon toll access rates. MECA member companies primarily interconnect with cellular carriers on a per minute of use access basis in which intraLATA toll carriers are assessed toll access charges and the intraLATA toll carriers recover their costs from the cellular carriers using their tariffs.

Since MECA member companies interconnect with cellular carriers through intraLATA toll carriers, the interconnection rates are publicly disclosed. The intraLATA toll access rate charged to the intraLATA toll carrier is tariffed by MECA. The rate charged by

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the intraLATA toll carrier to the cellular carrier is tariffed by the intraLATA toll carrier.

Thus, since the interconnection rates under existing interconnection arrangements in Michigan are tariffed, the FCC's concern with public disclosure of such interconnection rates is moot.

Since the current MECA member company LECs - cellular carrier interconnection rates are based on the intraLATA toll access rates, MECA member LECs recover a proportionate share of their shared costs and overheads. For this reason, MECA is satisfied with the current interconnection arrangements and would object to any action by the FCC that would preempt or otherwise interfere with the current interconnection arrangement.

2. General Pricing Principles.

- a. The FCC Requests Comment on Whether and on What Basis LEC-CMRS Interconnection Offerings Should be Treated Differently From a Carrier's Other Service Offerings, Which Generally are Priced to Recover Some Portion of Shared Costs and Overheads. (§ 50)**

As stated above, LEC-CMRS interconnection should be treated identically to carriers of other service offerings in an effort to avoid any arbitrage incentive to report the improper usage. MECA takes the position that the interconnection rate should be cost-based, based upon a per minute usage rate that reflects LRIC plus an additional amount that would recover shared costs and overheads. In the near term, at least with respect to small LECs,

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such as MECA member companies, toll access rates should be used as LEC-CMRS interconnection rates.

b. The FCC Requests Comment on Whether to Allocate Shared Costs and Overheads Among Services in an Inverse Relationship to the Sensitivity of Demand for Each of the Services (the Ramsey Rule) (§ 51).

MECA takes the position that shared costs and overheads should be allocated similarly regardless of the service offering or carrier. Unequal fixed allocation procedures, such as the Ramsey Rule, cannot apply in the long term when competition will control and the marketplace will determine how shared costs and overheads are distributed among services. Unequal fixed allocation procedures are not appropriate in the short term since proportionate contribution from all services helps avoid arbitrage and is simple to administer. Further, unequal contributions cause subsidies between carriers and/or services which are contrary to the move to a competitive marketplace.

c. The FCC Requests Comment on Whether to Allocate Shared Costs and Overheads Among All Services Based on Some Specified Allocator (§ 52).

MECA agrees with the FCC that shared costs and overheads must be shared among all services. MECA further agrees that allocators based upon some measure of usage would be an efficient means of allocating shared costs and overheads, but they might have undesirable effects on demand for particular services causing inefficiencies in the market.

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Therefore, the use of uniform allocators based on some measure of usage, if implemented by the FCC, should only be on an interim basis. In the long term, the competitive marketplace will determine how shared costs and overheads are distributed among services.

Since current toll access charges have been developed using similar measures of usage, MECA recommends that small LECs be allowed to use their toll access rates for interconnection with CMRS providers on an interim basis. Use of toll access rates would be beneficial for small LECs and interconnecting CMRSs because they are relatively simple to administer and, for the small LECs, result in full recovery of all shared and overhead costs.

d. The FCC Requests Comment on Whether to Allow Incumbent LECs to Employ the Efficient Component Pricing Rule ("ECPR") Proposed by William Baumol and Others (¶ 53).

It is MECA's position that small LECs be allowed in the long term to employ the "efficient component pricing rule."² This principle states that an input sold to a competitor must be priced so as to recover not only LRIC, but also the lost opportunity costs associated with that input.

Baumol and Sidak make the common sense observation that telephone customers do not purchase a local loop; rather, they purchase a package of local, toll and

²William J. Baumol and J. Gregory Sidak, Toward Competition in Local Telephony, MIT Press, 1994.

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custom calling features. LEC interconnection in reality is an input needed to produce the final services demanded by CMRS customers. The true costs of LEC interconnection are the opportunity costs of not having that interconnection. These opportunity costs to the LEC equal the expected revenues to be earned for local, access, and custom calling features. If a CMRS provider acquires interconnection to the LEC network at LRIC, it is not paying the true cost.

By not pricing interconnection at true costs (opportunity costs), the LEC flows subsidies to the CMRS providers. This causes three socially unacceptable consequences. First, the flow of subsidies to the CMRS providers encourages the entry of carriers that are less efficient, which is a waste of scarce resources. Second, carriers that are more efficient in constructing and maintaining a network do not provide the network because the subsidized interconnection rate is more attractive. This too is a waste of resources and consumers do not benefit from the introduction of new technology or the benefits of the "network of networks." Finally, customers of the small LEC will experience rate shock as they must pay for the lost revenues that previously supported shared costs and overheads.

Furthermore, if the LEC sells interconnection based on the "efficient component pricing rule," the small LEC is indifferent because the LEC recovers its true costs and recovers an appropriate level of shared costs and overheads.

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e. The FCC Requests Comment on Whether the Prevention of Cross-Subsidies Reduces the Range of Acceptable Prices or Acceptable Allocation Schemes for Shared Costs and Overheads (§ 54).

MECA takes the position that CMRS interconnection priced strictly at LRIC is inconsistent with the FCC's concern regarding the prevention of cross-subsidies. The FCC's concern that there be no cross-subsidies between services provided by a carrier can be readily addressed by requiring that LRIC be the price floor of any service. However, if the FCC insists that LRIC be the actual price for a service, purchasers of basic local service and other carrier groups will subsidize the CMRS providers. If the CMRS provider is not required to pay rates that include a sufficient contribution to shared costs and overheads, then users of basic local service and other carrier groups would have to pay higher rates in order to recover the shared costs and overheads avoided by the CMRS providers.

In general, preventing the recovery of shared costs and overheads from LEC-CMRS interconnection would place a heavier burden of shared cost and overhead recovery on other services, including basic local exchange service. MECA takes the position that recovering costs in excess of LRIC regardless of service offering recovers the appropriate amount of shared costs and overheads without cross-subsidy of any service. In the interim and at least with respect to small LECs, setting the LEC-CMRS interconnection rates at the LEC's toll access charges meets these objectives.

3. Pricing Proposals (Interim, Long Term, Symmetrical).

a. FCC's Tentative Conclusion Regarding Bill & Keep.

As stated earlier, MECA takes the position that LEC-CMRS interconnection should be based upon mutual compensation. Further, the rates recovering traffic sensitive costs should be on a per minute of usage basis, based upon LRIC plus some amount for the recovery of shared costs and overheads. The FCC's tentative conclusion that the CMRS-LEC interconnection rates be on a "Bill & Keep" basis should be rejected and, for small LECs, the LEC-CMRS interconnection rate should be set at the LEC's toll access charge.

This tentative conclusion to use Bill & Keep is based upon the seriously flawed assumption that the flow of traffic between CMRS providers and LECs would be equal in both directions. The truth is that more traffic flows from CMRS providers to LECs than from LECs to CMRS providers. Whether this is due to cellular users' reluctance to give out their wireless telephone numbers, technical limitations on cellular telephones or other factors, is immaterial to the rate for interconnection. Terminating interconnection rates should be based upon the terminating carrier's costs for termination of the call. Bill & Keep interconnection arrangements make economic sense only in the event that traffic between the carriers and the costs of the carriers are roughly equivalent. It is unreasonable to assume that traffic between CMRS providers and LECs is roughly equivalent. It is more unreasonable to assume that CMRS providers and LECs have roughly equivalent costs.

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Further, MECA does not want the FCC to preempt its current interconnection arrangements with cellular carriers by establishing mandatory LEC-CMRS interconnection arrangements. MECA member companies' current interconnection arrangement with cellular carriers in Michigan is based in part upon toll access rates. MECA member companies primarily interconnect with cellular carriers on a per minute of use access basis in which intraLATA toll carriers are assessed toll access charges and the intraLATA toll carriers recover their costs from the cellular carriers using their tariffs. Imposition of a mandatory Bill & Keep interconnection arrangement throws into flux this previously negotiated interconnection arrangement between small LECs, intraLATA toll carriers and cellular carriers. It is MECA's position that individually-negotiated interconnection arrangements are in the public interest for the reason that negotiation allows carriers to be creative in their service offerings. Federal mandates inhibit creativity and, therefore, the FCC should not issue federal mandates.

The FCC also seeks comment on whether and how LECs should recover from CMRS providers the costs of tandem switching and common transport between tandem switches and end offices, in cases where such LEC-provided facilities are used. It is MECA's position that small LECs should recover these costs using toll access rates because there is no functional difference between this type of calling and toll calling.

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b. The FCC Proposes LEC-CMRS Interconnection Based upon Bill & Keep for Off-Peak Usage Only. (§ 67)

MECA objects to a Bill & Keep interconnection arrangement for off-peak usage for the reasons previously discussed regarding any Bill & Keep interconnection arrangement. An interconnection arrangement based upon Bill & Keep for off-peak usage is practically nonsensical. LECs must still prepare bills that include all charges for all the calls and then compare those bills to see if the calls fall within the off-peak period. This adds another unnecessary step and common sense implies that this is more costly than simply sending the CMRS provider a bill for all interconnected calls.

c. The FCC Proposes LEC-CMRS Interconnection Based Upon a Subset of the LECs Existing Interstate Access Charges or a Comparable Rate from Its Interstate Access Tariffs. (§ 68).

MECA objects to the use of a subset of the LEC's existing interstate access charges because there is no just reason why some portion of the interstate access charges should not be charged. The costs are still being incurred by the LEC to allow a CMRS provider to interconnect with the LEC network. Since the interconnection costs are incurred, they should be included in the rate. The only reason that the FCC may charge only a subset of access charges to CMRS providers (as compared with the toll access rates charged to IXC's) is an application of favoritism to a specific group of carriers.

The FCC also seeks comment on whether a per-minute access charge should

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be converted to peak-sensitive capacity charges (either per peak minute or flat rate), in the context of LEC-CMRS interconnection. MECA takes the position that a LEC's access charges would be the appropriate framework for LEC-CMRS interconnection [regardless of the outcome of the FCC's access reform proceeding] primarily for the reason that it would treat providers similarly and allow the small LEC to recover an appropriate amount of shared costs and overheads from this interconnection service. Similar treatment would prevent incentives to misreport usage in the event that a company is both a CMRS provider and an IXC.

d. The FCC Proposes CMRS-LEC Interconnection Based upon Existing Interconnection Arrangements Between Neighboring LECs (¶ 69).

In Michigan, the predominant interconnection arrangement between neighboring LECs is an access arrangement to interconnect for toll service. Many MECA member companies, however, have extended area service ("EAS") arrangements with a number of neighboring LECs. EAS is an anomalous service that developed historically in an environment of no competition and without concern for cross-subsidies. EAS in Michigan is a discounted flat rated toll plan. EAS arrangements are on a Bill & Keep compensation arrangement in Michigan. Typically, the small LEC is adjacent to a larger LEC and the traffic going between the two exchanges has been documented to be not equal. EAS compensation on a Bill & Keep basis between carriers is no longer considered to be a proper

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compensation arrangement because of the imbalance of traffic between carriers.

In Michigan, as well as other parts of the country, those carriers that terminate more EAS traffic than they originate are pressuring carriers who originate more EAS traffic than they terminate to abandon the Bill & Keep arrangement in favor of compensation based upon measuring terminating usage. Therefore, the LEC-CMRS interconnection rate should not use EAS or any other form of Bill & Keep interconnection as a model because Bill & Keep because flat-rated EAS itself eventually will be abandoned. As stated earlier, MECA does not believe that a Bill & Keep method of compensation is appropriate in the context of LEC-CMRS interconnection because of the disproportionate amount of traffic going from CMRS providers to, and terminating on, LEC networks.

- e. **The FCC Proposes LEC-CMRS Interconnection Based upon the LEC-Cellular Carrier Interconnection Arrangements (§ 70).**

MECA has unique LEC-Cellular interconnection arrangement in Michigan that may be an appropriate model for LEC-CMRS interconnection. LEC-Cellular interconnection is based, in part, upon toll access rates. MECA member companies primarily interconnect with cellular carriers on a per minute of use access basis in which intraLATA toll carriers are assessed toll access charges and the intraLATA toll carriers recover their costs from the cellular carriers using their tariffs. If CMRS providers interconnect with small LECs through intraLATA toll carriers in Michigan a similar interconnection compensation

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arrangement should be adopted. If CMRS providers interconnect directly with MECA member companies, however, the interconnection rates should be set at the toll access rates for the reasons previously articulated.

f. The FCC Proposes LEC-CMRS Interconnection Based upon the Intrastate Interconnection Arrangements Between LECs and New Entrants (§ 71).

The FCC uses Michigan as an example of intrastate interconnection agreements between LECs and new entrants and suggests that this interconnection arrangement may be an appropriate model for LEC-CMRS interconnection. It is inappropriate to use this model for an interconnection arrangement between all LECs and CMRS providers for the reason that, in Michigan, MECA member companies are temporarily exempt from these interconnection arrangements. The intrastate interconnection arrangements between LECs and new entrants is only applicable to Ameritech Michigan and GTE North.

This is a reason that the FCC should propose a model, rather than mandate specific interconnection requirements and should not preempt the field of interconnection arrangements between LECs and CMRS providers. The FCC should leave to the states the details of these interconnection arrangements for the reason that the states are more capable of dealing with the competing interest between large LECs, small LECs, and CMRS providers. State public utility commissions and legislatures are better suited to balance the